March 22, 2019 **#1738**

LOOKING FORWARD WITH A BACKWARD GLANCE

A PRODUCT OF AG MASTERS MARKETING GROUP

Sales Recommendations: See soybean sales recommendation further below; highlighted and underlined. What % do you have priced of you 2020 soybean crop? Are you there yet?? The November 2020 soybean chart beating at $9.85 for 5 months now, a price level it can't get above. Next MNU by March 31, 2019.

Current Sales: 2018 sales: **corn** 35% **soybeans** 100% **wheat** 87.5%
2019 sales: **corn** 10% **soybeans** 100% **wheat** 25%
2020 sales: **corn** 0% **soybeans** 50% **wheat** 0%

Test Messaging: Some who receive text messaging have not been getting them. We have yet to discover what has changed. We believe it has to do with their provider making some internal changes. If you are to receive text messaging and during the week you don't receive any texts from Ag Masters during any 36 to 72 hour period, please call or text immediately to let us know.

Quick View: Record short positions have the Funds sitting and waiting, suggesting they will stay short as long as there is nothing new that would drive them out of profitable positions. Continuous talks have worn them down. Chatter won't move the grains much now. They will need something real. Large exports sales are fine, but they can be canceled later. They will need to see loadings; actual grain actually being moved! Until then, don't look for much excitement in grains. Today's report of 300,000 mts of corn sold to China for delivery before September 1 is helpful, but far less than the amount rumored that they would purchase. This could be another "good faith" purchase; a little here, a little there, while kicking the can. We remain longer term positive to **Corn**. A very slow uptrend should be working corn higher over the next 2.5 months. For **Soybeans**, we remain longer term negative. If Fund buying kicks in from a trade deal, Fund positioning and hefty stocks should keep any rally in beans proportionately weaker than what would be seen in corn or wheat. **July19 K.C. wheat** is trying to base above $4.30. It will need a close above $4.60 to get the Funds worried. It's working on that today.

USDA Prospective Planting: This report is scheduled for next Friday, March 29th @ 11:00. With all the other market influences affecting prices, will this one even matter? No one will really know until planting is complete. Some producers are already planning on having prevented plantings!!

<u>Important Texts</u>: Two critical texts this week; ***"China has liquidated 10 m sows. The U.S. sow herd is 6.3 m head. Hog feeding down 20%. Bean meal demand down same; a big negative for beans.***

"Pork Production losses in China due to ASF may already match total production in Canada, U.S., Mexico & Brazil. Potential implications ??? !!!"

For the grain producer, this is not about ASF issues in China. It's about the lost soybean demand, as well as the lost corn demand. Most talk about a 20% death loss in China's herd. That would be around 100,000,000 head! Add to that China's nature of not letting the outside world know what is going on inside China. What if the death loss is 30%? What if it grows to 40%? The repercussions are not calculable. One would think this would help push China to work toward a trade agreement. <u>But that is not where you</u>, the grain producer, <u>need to focus</u>. Focus on the long term implications to demand and what that will do to soybean prices long term! Read more about those numbers under **<u>Soybeans</u>**.

https://www.reuters.com/article/us-china-swinefever-reporting-insight/piles-of-pigs-swine-fever-outbreaks-go-unreported-in-rural-china-idUSKCN1R10VQ

ASF has created a long term change in China's demand for feed grains. Due to extremely large supplies and over production of soybeans, it will be soybeans that will see the most price pressure from ASF later this year, as well as in the ***<u>years</u>*** to come. ASF will not be a one year wonder. China will fight this disease for a long time; the next 5 years for sure, if not stretching for up to 10 years. There is some hope that this situation can be stabilized, but you need to stay focused on what this reduced demand will do to soybean prices in 2019 and 2020.

<u>We have pushed producers to be 100% sold on 2019 production and at least 50% sold on 2020 production. For those who can manage their cash sales, we'd recommend pushing those sales even higher to 75%. Price all soybean production for 2019 & 2020 that you can't store</u>. We realize some of you are hoping for a rally in price from some positive trade news talk for soybeans. We believe it is getting too late for that. Now is when China normally starts sourcing the majority of their beans from Brazil and some from Argentina. We believe they have already picked up the remaining of the "potential" needs from the U.S. Those sales were announced as "good faith" purchases to manage trade negotiations so the U.S. would go along with them and keep kicking the can. With this, China succeeded. They will now use those sales against Brazil to get them to lower prices. Then come later this spring/summer, China will likely cancel some of their unneeded, U.S. purchases.

<u>Corn</u>: We have to continue to wait. The trade is looking at good weather in South America increasing their corn production, which will compete in the export market with the U.S. later in

2019 and into 2020. After the March 29 Prospective Planting Report, we expect the trade to turn more of its attention to U.S. planting conditions. Under the current flooding conditions in the U.S. and longer term forecasts of continued above normal precipitation, many are thinking 2019 will see increased prevented plantings. There are always some. But will PPA be higher and will those acres lean more toward corn acres? Most think yes because of little tillage accomplished last fall, little fertilizer applied and saturated soil conditions. Generally, the U.S. averages about 3.8 ma prevent plant each year. Last year was surprisingly one of the lowest in PP at only 1.9 ma. With conditions the way they are now, one would guess average would be the minimum for PP, or about 4 ma. It would be hard to imagine having PP that matched 2011, which came in at 11 ma. The shift out of corn to soybeans would be from delayed plantings, not from PP. This is the issue that could bring support to corn. The Funds have never showed concern about lost corn acres due to delayed plantings until after May 25. When looking at decreased yield from delayed planting on corn, the producer could decide his cost saving is better going to PP than to soybeans. Maybe more so this year with so little fall tillage done and no fertilizer put on.

NOAA's longer range forecasts suggest this flooding could continue through May. If we have a moderate warm up with the extensive snowpack through the Dakotas and Montana, continuous river basin flooding could continue through May. If much above normal temperatures hit, earlier and more extensive flooding would be likely.

With planted acres now being guessed up just 500,000 to 1 m ***(89.6 planted acres in 2018),*** the Bulls have a little more ammunition to run with. We have been arguing the soybean/corn ratio won't get the large flip in acres all were calling for. While they have finally come around to our way of thinking, some of that flipped likely came from the rapid snow melt, rains and talk of continued rains. This and seasonals should be able to get this market up and going. We were thinking after the Prospective Plantings Report next Friday. If May19 corn closes above the 50 day moving average that sits just below $3.80, then maybe the Funds are looking at that. And being so short, likely evening up before next Friday's report?

Ethanol futures hit a 7 month high this week, forced higher from slow grind rates from plant closures and rail issues from weather; heavy snows and flooding. As many as 10,000 ethanol tanker cars need to be serviced before they can be returned to service after running through or standing in water. These logistics are not bullish for corn and any lost demand is nearly impossible to make up. Last week's grind used 103.6 mb, while needing to average 106.6 mb to meet USDA's usage projections of 5.55 bb. This slow grind is mostly due to the waivers the EPA has granted to "Big Oil". Trump really screwed the corn growers on this one, siding with Big Oil. He seeks to bail out the corn grower with a deal with China where they purchase large amounts of corn and ethanol. Getting E15 approved would be helpful. We are all still waiting on that one. Corn export sales were 33.7 mb, 7 mb higher than what is needed to meet USDA's export forecast. Chatter continues about China moving forward on purchasing up to 7 mmts of U.S. corn. It is said this would be filling part of the obligation to the WTO; interesting. So it would not be part of the trade deal? A 7 mmt commitment and then actual purchase of that much corn would really light a fire under corn prices. And for those thinking about soybeans; not a peep about them buying soybeans now for some time. That's definitely not good.

Argentina's corn production was raised from 44 mts to 45 mts. Ukraine's corn exports for 2018/2019 were raised from 26 mts to 27.5 mts. Our USDA is higher, having them at 29 mts. FC Stone put U.S. corn acres at 90.4 ma vs the USDA Outlook Board's number of 92 ma.

Soybeans: FC Stone guessed U.S. bean acres at 87.7 m vs the Outlook Board's number of 85 ma against last year's acreage of 89.2. Running with these numbers against an estimated yield of 49.5 bpa, U.S. carryover stocks would end up around 1 bb for soybeans. Unfortunately, the USDA has refused to adjust its overly optimistic export numbers. Making the necessary reductions would take 2019/2020 U.S. carryover stocks to 1.2 bb, if not higher. If you pass through equivalent numbers for world stocks from what occurred last year, world stocks should grow to a ***minimum*** of 120 mts in 2019/2020. We are being kind, as we are not taking into consideration reduced demand from China and increasing production over last year out of South America.

Export sales were weak again last week at 33.7 mb. Noted should be 2.4 mb of net cancellations for 2019/2020. Inspections/loadings for last week were 841,888 mts. Totals for 2018/2019 are running 31% behind last year. They are only 54.3% of USDA's forecasted total for this year vs the 5 year average of 79%. It was a bit of a surprise to see managed money had increased their short positions in soybeans by nearly 40,000 contracts in just 1 week, to 90,000 contracts. Compare this to corn, where they added 81,000 contracts short, pushing total shorts to nearly 258,000 contracts.

They have scheduled trade talks for next week in China. Secretary Mnuchin and USTR Lighthizer will attend that meeting. The meeting the following week will be in Washington, with China's Vice Premier Liu He attending. As stated earlier, we don't expect much fireworks on talks about a "great deal" or "big purchases" are going to happen. They have cried wolf too often. The Funds will need to see direct evidence of something real before prices will break out above current trading ranges.

ABIOVE lowered Brazil's soybean production from 117.9 mts to 116.9 mts, while leaving their exports unchanged at 70.1 mts. They did raise Brazil's ending stocks from 1.9 mts to 2.95 mts. That came from them underestimating Brazil's production, which they increased from 121.3 mts to 123 mts. It's interesting that Argentina's largest bank is working on a plan to move their farmers to sell more soybeans.

<u>Wheat</u>: Inspections for wheat reported on Monday were 21.8 mb. That was good compared to last year's 15.8 mb, but that still leaves us more than 6% down from last year at this time and below USDA's expected increase in exports that are projected to be up 7%. Exports and sales continue to be a negative for wheat. Now is the time they have to pick up and run. But export competition from exporting nations has kept U.S. sales weak.

As the snow melts off wheat, they are starting to get a better view of crop conditions. Kansas wheat ratings fell 2% points in the G/EX category, now at 49%. P/VP rose from 9% to 11%. Texas rose from 28% to 33% G/EX, Oklahoma rose from 56% to 60% and Colorado jumped from 50% to 62%! Funds are holding record shorts in KC wheat, sitting on over 49,000 contracts as of March 12^{th}. Now we just need a reason to send these Funds running for the door to get that $1.00 rally! A small step will be to get July19 futures to clear $4.60. Weak export sales, inspections and rising crop ratings will be wheat's anchor.